

SMALL BUSINESS DEVELOPMENT EQUITY INVESTMENT

First Citizens National Bank

PARTICIPANT PROFILES

First Citizens National Bank ("First Citizens" or the "Bank"), a wholly owned subsidiary of First Citizens Financial Corporation, is a federally-chartered commercial bank in Mason City, Iowa, located in Cerro Gordo County, has assets of approximately \$530 million, 11 branches and operates in 8 counties, including rural Floyd

County. First Citizens is recognized as a financial services leader for commercial and agricultural businesses in North Central Iowa. The Bank has committed financial and staff resources to the ongoing growth of loan and deposit services to meet the needs of this important market segment.

COMMUNITY BACKGROUND

According to the 1990 Census, Iowa's total population at that time was 2.7 million. The Census Services Department of Iowa State University ("ISU") estimates Iowa's total population as of July 1, 1996, to be 2.8 million. Floyd County is a small community located in North Central Iowa. According to 1990 Census data, Floyd County had a total population of 17,058. Notwithstanding the

increase in total population for the state, ISU estimates that Floyd County's total population dropped to 16,538 as of July 1, 1996. Historically, this county's economic strength has been its farming and manufacturing industries. Farming-related businesses have been steadily declining since the agricultural crisis of the 1980s. However, the manufacturing and processing industries



remain a significant and vital part of the local economy. According to the Iowa Department of Economic Development, the total non-agricultural labor force as of 1996 was 7,686, or 87.8 percent of Floyd County's entire labor force. The U.S. Census Bureau estimates that the 1993 average median income for the county was \$27,607. According to the Department of Economic Development, the unemployment rate for June 1998 was 3 percent.

The county seat of Floyd County is Charles City, a community with 8,000 residents and a relatively low cost of living. The city's climate is ideal for manufacturing and service industry development. The major employers in the county include Fort Dodge Animal Health, Salsbury Chemicals, All-State Quality Foods and the Floyd County Memorial Hospital.

COMMUNITY NEEDS

Floyd County has been adversely affected by the loss of a major manufacturing employer. The company, which manufactured farm tractors, laid off nearly 1,500 people during its last 10 years in business and only 408 employees were on the payroll when the plant permanently closed in 1993. The plant's closing left an enormous employment gap in

the local community. Without a growing industry or new employer to supplement the loss of the manufacturing plant, the creation of a diversified employment base seemed the best option available for pulling the local economy out of its slump.

BEST PRACTICE PROGRAM OR PRODUCT

In 1994, local government and business leaders held a series of meetings to address employment issues and devise a strategy for long-term economic recovery. A key resource in the planning was a 1991 economic case study conducted by the University of Northern Iowa's Community Economic Development Program. The study concluded that rural communities, once dependent on sector industries¹ or large employers, found new opportunities by diversifying their economic bases and attracting small businesses, i.e., those with 20 to 100 employees. The study also noted that these communities were more successful at getting new businesses to locate in their towns when there was a suitable industrial building available for purchase or rental.

One of the major initiatives resulting from the deliberations was the creation of the Floyd County Progressive Growth Limited Liability Company ("LLC"). The mission of this multi-investor, for-profit organization was to maximize the use of the combined resources of its members to attract small businesses and create employment opportunities for low- and moderate-income people in Charles City and Floyd County.

In order to participate in the LLC, First Citizens had to obtain the approval of its primary regulator, the Office of the Comptroller of the Currency ("OCC"). The OCC approved First Citizens' equity investment in the LLC pursuant to 12 U.S.C.A. § 24 (Eleventh) (1997) and 12

C.F.R. Part 24 (1997). Part 24 specifically authorizes national banks to make investments designed primarily to promote the public welfare.

In 1995, the LLC began laying the foundation to oversee and administer this economic growth initiative. The LLC's sole purpose was to provide the Charles City Area Development Corporation ("City Development") with an industrial building as part of the expansion of an existing industrial park and with the resources necessary to provide an incentive for prospective employers to locate in the community. However, in the early stages of development the LLC had no staff or operating budget. As a member of the LLC, City Development agreed to make in-kind contributions of administration, marketing, sales, and staff



Above is the 50,000 sq. ft. industrial spec building, located in Charles City, IA. The facility has attracted more than 100 inquiries from small businesses.

support for the LLC. These contributions helped make it possible for the LLC to fulfill its mission.

The LLC planned to expand the development of an existing industrial park complex on the southwest side of Charles City. An integral component of the plan was a proposed 50,000-

square-foot building that could be purchased or leased by small industries for manufacturing or other enterprises.

The industrial building, which was the only major asset of the LLC, had projected construction costs of \$500,000, and was on a five-acre parcel of land. Its construction was very basic, with many unfinished features. The idea behind this approach was to keep the cost down and give new companies the flexibility to develop the site to their own specifications. This, in turn, was projected to stimulate community job growth.

Initially, six members, including First Citizens, each invested \$125,000 in the LLC, enabling it to purchase and develop the industrial building. Under the terms of the partnership, the initial investment capital, which was non interest bearing, could not be recovered until the building was sold.

The land, then valued at \$40,000, was transferred to the LLC by a private landowner, and a local contractor agreed to develop the land and construct the industrial building at wholesale cost. Both the landowner and developer agreed to defer their compensation until the property was either sold or it was 75 percent occupied by tenants. The cooperation of the landowner and the developer, as well as capital contributions of the LLC members, were critical to the success of this venture because they enabled the LLC to construct the facility without incurring any debt.

In addition to the development of the building, various community entities developed creative strategies for attracting new business activity to Charles City. For example, Charles City and Floyd County created the Tax Incremental Financing District ("TIF District"). The

objective of the TIF District was to provide front-end financing to be repaid from future tax assessments. With the TIF District incentive, new businesses could receive tax-financing payable over 7-10 years. This joint initiative represented one of the first city/county TIF District ventures in the state of Iowa.

Another tax incentive for new businesses in Charles City was made available by the Enterprise Zone legislation. The incentive became a reality under an Iowa State law, passed in 1997, that created Enterprise Zones for designated communities; both Charles City and Floyd County received this designation. The Enterprise Zone legislation allowed Charles City to provide tax abatements, which would also be used to attract new businesses to the city. In awarding a business up to 10 years of property tax abatement, the city and county are confident they are attracting a business that will be providing economic benefit to the community long after the term of the abatement has expired.

With the administration, funding and tax incentives in place, the next step for the LLC was to utilize the partnership's resources to effectively market the industrial building and complex. The marketing strategy focused on the industrial building, the TIF District, and

the Enterprise Zone to attract small businesses into the area. As part of the marketing strategy, photographs of the building were placed on the Internet and featured in brochures distributed by the Iowa Department of Economic Development and the Mid-American Energy Company, an LLC equity member. Additionally, advertising campaigns produced by various city, county, and state government agencies featured the industrial park and building.

As a partner in the city's economic development initiatives, First Citizens also made a \$100,000 contribution to a newly created Job Incentive Capital Fund. The \$500,000, which was privately and locally raised by City Development, provides "start-up" subsidies for small businesses relocating to the area. The cash incentives can be in the form of interest buy-downs, a lease subsidy, or a forgivable loan or grant for other purposes. It gives small employers an added incentive to create jobs and opportunities in the community.

¹ Examples might include manufacturing, textiles, crop farming, livestock farming, and tourism.

EXPERIENCES AND OBSTACLES

The experience of the LLC over its three year history has been that of cooperation and collaboration among the members, City Development, the community, the county and Charles City. The long term goal of creating jobs and economic health for the County has remained the central focus of the organization. Enterprise Zone designation and the establishment of the joint city/county TIF

District were accomplished in a timely manner through the cooperative efforts of all parties.

Obstacles to the success of selling or occupying the building include the highly competitive nature of economic development. Similar incentives are available in other communities of varying size throughout Iowa and the Midwest. The LLC members entered

into the project with the full knowledge that economic development is a long term goal,

requiring patience and determination.

CURRENT STATUS

Since the LLC opened its doors for business in 1995, there has been increased interest in Charles City. In 1997, the industrial building attracted more than 100 inquires from small businesses interested in purchasing or leasing the property. To date, 12 of those proposals have developed into solid prospective industrial candidates. One prospect in particular considered the industrial building for a start-up manufacturing business, but selected another building in Floyd County. Clearly, the industrial building and the above-identified financial incentives were the reasons that the company was initially attracted to Floyd County. The economic impact of the company will be 20 jobs over the next two years at an average wage of \$13.50 per hour.

The LLC is very close to finalizing an agreement with Winnebago Industries to lease the industrial building for the purpose of establishing a satellite facility in Charles City. Winnebago plans to utilize the site to produce components for shipment to the parent facility. Successful negotiations would result in a minimum of 100 new jobs to Floyd County with hourly wages ranging from \$8.05 to \$27.50. At least 51 percent of the positions created would be taken by or made available to individuals from low- and moderate-income households. Charles City is being considered as a manufacturing location by Winnebago in part because of the available work force, the industrial building and the financial incentives available through the Enterprise Zone qualification, the local Jobs Incentive Capital

Fund (projected at \$300,000 or \$3,000 per job), the Iowa Department of Economic Development Set-Aside Program (projected at \$300,000), and the City/County TIF District grant (projected at \$350,000). The estimated cost of developing the manufacturing site is \$1.9 million. The economic development incentive package being offered would enable the company to significantly offset those costs. The success of this pending project will be a significant validation of the value of partnerships between private and public entities in fostering economic development in rural communities.

The LLC's economic development operations have expanded geographically. In 1998, a non-profit organization called the Northern Prairie Regional Economic Development Corporation ("Northern Prairie") was created to foster economic development activities throughout Floyd County. Charles City and Floyd County put up \$30,000 each as venture capital to further develop the Northern Prairie initiative. The participation of the non-profit will enable small business support initiatives to reach outlying regional communities. The addition of a non-profit entity can be another important tool for attracting resources for economic development. Many philanthropic organizations are only able to fund non-profit initiatives.

PARTNERSHIPS

The comprehensive economic development initiatives of the LLC were made possible with the cooperation of the following entities: First Citizens National Bank, the State of Iowa Department of Economic Development, the Charles City Area Development Corporation, the University of Northern Iowa, the City of

Charles, Floyd County, First Security Bank & Trust, Mid-America Energy Corporation, Point Builders, Northern Prairie Regional Economic Development Corporation, and the Charles City Civic Foundation.

ADDITIONAL INFORMATION CONTACTS

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ADDITIONAL RESOURCES

Census Services

Dept. of Sociology

303 East Hall
Iowa State University
Ames, IA 50011
<http://129.186.33.245/census/>

Division of Community & Rural Development

Iowa Department of Economic Development

200 E. Grand Ave
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[http://www.state.ia.us/government/ided/crd/
index.html](http://www.state.ia.us/government/ided/crd/index.html)

Iowa Workforce Development

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